

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|-----------------------------------|--|------------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>The City of Sterling Heights Housing Commission</u> | County Macomb |
| Audit Date September 30, 2004 | Opinion Date November 18, 2004 | Date Accountant Report Submitted To State: March 7, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|--------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|---|---------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, LLP | | | |
| Street Address 10 S. Main St. | City Mt. Clemens | State MI | ZIP 48043 |
| Accountant Signature  | | | |

The City of Sterling Heights Housing Commission

**Financial Report
September 30, 2004**

The City of Sterling Heights Housing Commission

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Independent Auditor's Report

To the Members of The City of Sterling
Heights Housing Commission
City of Sterling Heights, Michigan

We have audited the accompanying basic financial statements of the The City of Sterling Heights Housing Commission as of September 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of The City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of The City of Sterling Heights Housing Commission as of September 30, 2004 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion on it.

As described in Note 5, the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of October 1, 2003.

Plante & Moran, PLLC

November 18, 2004



A worldwide association of independent accounting firms

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis

The City of Sterling Heights Housing Commission (SHHC or the "Commission") management's discussion and analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHHC's financial activities for the year, (c) identify changes in SHHC's financial position, and (d) identify individual program issues or concerns.

Our discussion and analysis of SHHC's financial performance provides an overview of SHHC's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with SHHC's financial statements.

Mission

SHHC was established in November 16, 1971 and, through its programs and partnerships, is committed to building better neighborhoods by providing housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

Financial Highlights

- SHHC's total assets exceeded its liabilities by \$4,924,558 at September 30, 2004. This is a decrease of \$223,322 from the previous year as a result of operations.
- Operating revenues decreased by \$9,636 (1.2 percent) and were \$807,866 and \$817,502 for fiscal years 2004 and 2003, respectively.
- Expenses increased by \$33,614 (3.3 percent) and were \$1,037,583 and \$1,003,969 (including depreciation) for fiscal years 2004 and 2003, respectively.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The Commission's Funds

SHHC's financial statements utilize the Enterprise Funds method on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. Many of the programs maintained by SHHC are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. Major programs are as follows:

Low-income Public Housing Program - Under this program, SHHC rents units at Schoenherr Tower, which is the apartment building it owns, to low-income households. This program is operated under the Annual Contributions Contract (ACC) with HUD, and HUD provides operating subsidies to enable SHHC to provide the housing at a cost that is based upon 30 percent of household income. SHHC currently owns and operates 152 units in this program.

Section 8 Program - Within the Section 8 Program, SHHC administers contracts with independent landlords that own and lease units within our community. SHHC subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. These programs are operated under Annual Contributions Contracts (ACC) with HUD, which enables SHHC to structure a lease that sets the participants' housing costs at 30 percent of household income. SHHC currently administers over 40 Housing Choice Vouchers.

The Commission's Financial Statements

SHHC's basic financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire Commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our Commission-wide financial statements also include a statement of revenue, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses such as administrative, utilities, and maintenance, and nonoperating revenue and expense such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

| | Fiscal Year 2004 | Fiscal Year 2003 | Change |
|------------------------------|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Current and other assets | \$ 1,072,060 | \$ 1,172,209 | \$ (100,149) |
| Noncurrent assets | <u>4,006,607</u> | <u>4,187,203</u> | <u>(180,596)</u> |
| Total assets | 5,078,667 | 5,359,412 | (280,745) |
| Liabilities - Current | <u>154,109</u> | <u>211,522</u> | <u>(57,413)</u> |
| Net Assets | | | |
| Invested in capital assets | 4,006,607 | 4,187,203 | (180,596) |
| Unrestricted net assets | <u>917,951</u> | <u>960,687</u> | <u>(42,736)</u> |
| Total net assets | <u>\$ 4,924,558</u> | <u>\$ 5,147,890</u> | <u>\$ (223,332)</u> |

Major Factors Affecting the Statement of Net Assets

Total assets decreased by \$280,745. The decrease is a result of property sales, depreciation expense, and the write-off and disposal of obsolete property.

Total liabilities decreased by \$57,413, due primarily to the reduction of the HUD payable at year end. The decrease is a positive improvement since it reflects the more efficient use of Section 8 vouchers in fiscal year 2004.

Please refer to the full financial statements for more detailed information on these accounts.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

| | Fiscal Year 2004 | Fiscal Year 2003 | Change |
|-----------------------------------|----------------------------|----------------------------|---------------------------|
| Revenue | | | |
| Tenant rent | \$ 381,351 | \$ 368,760 | \$ 12,591 |
| Federal sources | 415,306 | 432,039 | (16,733) |
| Miscellaneous | 11,209 | 16,703 | (5,494) |
| Interest revenue - Nonoperating | 6,385 | 29,533 | (23,148) |
| Total revenue | 814,251 | 847,035 | (32,784) |
| Expenses | | | |
| Low-income public housing | 529,324 | 503,307 | 26,017 |
| Section 8 programs | 223,951 | 211,159 | 12,792 |
| Non-HUD/Other business activities | 284,308 | 289,503 | (5,195) |
| Total expenses | 1,037,583 | 1,003,969 | 33,614 |
| Change in Net Assets | <u>\$ (223,332)</u> | <u>\$ (156,934)</u> | <u>\$ (66,398)</u> |

Major Factors Affecting the Statement of Revenue, Expenses, and Changes in Net Assets

Total revenues decreased by \$32,784. This net decrease is mostly a result of HUD subsidies decreasing by \$16,733 and decrease of interest expense by \$23,148 caused by lower interest rates earning in the bank accounts.

Total operating expenses increased \$33,614. Most expenses rose as a result of normal inflationary increases. However, property insurance rose by approximately 15 percent.

Please refer to the full financial statements for more detailed information on these accounts.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows the changes in capital assets during the current year:

| | Fiscal Year 2004 | Fiscal Year 2003 | Change |
|--------------------------|---------------------|---------------------|---------------------|
| Land | \$ 300,000 | \$ 300,000 | \$ - |
| Buildings | 7,507,143 | 7,466,979 | 40,164 |
| Equipment | 578,209 | 564,841 | 13,368 |
| Accumulated depreciation | (4,378,745) | (4,144,617) | (234,128) |
| Total | <u>\$ 4,006,607</u> | <u>\$ 4,187,203</u> | <u>\$ (180,596)</u> |

During fiscal year 2004, the change in capital assets amounted to a decrease of \$180,596. The above table represents the changes in the asset accounts by category as follows:

- Buildings increased by \$40,164 as the result of the renovations and general building improvements.
- The accumulated depreciation increased by \$234,128. The increase is current year depreciation expense.

Contacting SHHC Management

This financial report is designed to provide a general overview of SHHC's finances and to show SHHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact SHHC's office.

The City of Sterling Heights Housing Commission

Statement of Net Assets September 30, 2004

Assets

Current assets:

| | |
|------------------------------------|---------------|
| Cash and cash equivalents (Note 2) | \$ 1,017,724 |
| Accounts receivable | 3,701 |
| Due from other governmental units | <u>50,635</u> |

Total current assets 1,072,060

Long-term assets - Capital assets - Net (Note 3) 4,006,607

Total assets 5,078,667

Current Liabilities

| | |
|---------------------------------|----------------|
| Accounts payable | 15,311 |
| Due to other governmental units | 21,251 |
| Accrued and other liabilities | <u>117,547</u> |

Total current liabilities 154,109

Net Assets

| | |
|----------------------------|----------------|
| Invested in capital assets | 4,006,607 |
| Unrestricted net assets | <u>917,951</u> |

Total net assets \$ 4,924,558

The City of Sterling Heights Housing Commission

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2004

Operating Revenue

| | |
|-----------------|---------------|
| Tenant rent | \$ 381,351 |
| Federal sources | 415,306 |
| Miscellaneous | <u>11,209</u> |

Total operating revenue 807,866

Operating Expenses

| | |
|-------------------------|---------------|
| Salaries and wages: | |
| Office | 83,143 |
| Maintenance | 90,193 |
| Security | 10,869 |
| Management fees | 40,392 |
| Utilities | 102,484 |
| Repairs and maintenance | 56,706 |
| Professional fees | 34,015 |
| Taxes | 42,797 |
| Insurance | 68,725 |
| Section 8 | 223,951 |
| Depreciation | 234,128 |
| Miscellaneous | 34,336 |
| Bad debt | <u>15,844</u> |

Total operating expenses 1,037,583

Operating Loss - Before nonoperating revenue (229,717)

Nonoperating Revenue - Interest 6,385

Change in Net Assets (223,332)

Net Assets - Beginning of year 5,147,890

Net Assets - End of year \$ 4,924,558

The City of Sterling Heights Housing Commission

Statement of Cash Flows Year Ended September 30, 2004

Cash Flows from Operating Activities

| | |
|--|------------|
| Receipts from HUD operating subsidies and grants | \$ 448,961 |
| Receipts from tenants | 378,217 |
| Other receipts | 11,209 |
| Payments for housing assistance | (271,491) |
| Payments for administrative expenses | (123,535) |
| Payments for other operating expenses | (272,316) |
| Payments for resident and other services | (159,190) |
| Other payments | (34,336) |
| Net cash used in operating activities | (22,481) |

Cash Flows from Capital and Related Financing Activities -

| | |
|-------------------------------|----------|
| Acquisition of capital assets | (53,532) |
|-------------------------------|----------|

Cash Flows from Investing Activities - Interest received on investments

6,385

Net Decrease in Cash and Cash Equivalents

(69,628)

Cash and Cash Equivalents - October 1, 2003

1,087,352

Cash and Cash Equivalents - September 30, 2004

\$ 1,017,724

Reconciliation of Operating Loss to Net Cash from Operating Activities

| | |
|--|--------------------|
| Operating loss | \$ (229,717) |
| Adjustments to reconcile operating loss to net cash from operating activities: | |
| Depreciation | 234,128 |
| Changes in assets and liabilities: | |
| Decrease in due from other governmental units | 65,548 |
| Increase in accounts receivable | (35,027) |
| Decrease in accounts payable | (16,925) |
| Decrease in due to other governmental units | (47,540) |
| Increase in accrued and other liabilities | 7,052 |
| Net cash used in operating activities | <u>\$ (22,481)</u> |

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended September 30, 2004.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2004

Note 1 - Significant Accounting Policies

The financial statements of the The City of Sterling Heights Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a separate entity.

The Housing Commission was created to account for the operations of Schoenherr Towers, the City of Sterling Heights' (the "City") senior citizen housing project for low-income citizens, and other housing-related City matters.

Reporting Entity - The Commission is governed by a Board of Commissioners appointed by the Sterling Heights City Council. There are no component units to be included in these financial statements as defined by accounting principles generally accepted in the United States of America.

Basis of Accounting - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses a single Enterprise Fund to maintain its financial records on an accrual basis.

The Housing Commission considers all revenue and expenses to be operating, as required by HUD.

Cash Equivalents - For the purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Investments - Housing Commission investments are recorded at fair value, based on quoted market prices.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2004

Note 1 - Significant Accounting Policies (Continued)

Capital Assets - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives ranging from seven to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Note 2 - Deposits and Investments

The Housing Commission's deposits and investments at September 30, 2004 are included on the balance sheet as cash and cash equivalents in the amount of \$1,017,724.

The above number is classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

| | |
|--|----------------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 1,016,527 |
| Investments in securities, mutual funds, and similar vehicles | 697 |
| Petty cash | <u>500</u> |
| Total | <u><u>\$ 1,017,724</u></u> |

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,016,529, of which \$329,991 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized.

The Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Housing Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, mutual funds, and investment pools that are composed of authorized investment vehicles.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2004

Note 2 - Deposits and Investments (Continued)

The Housing Commission's investments during the year consisted solely of bank investment pools totaling \$697 at September 30, 2004. The Housing Commission believes that the investments in these pools comply with the investment authority noted above.

The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. These funds are included in cash and cash equivalents and restricted assets. The investments in the funds comply with the investment authority noted above.

Note 3 - Capital Assets

Capital assets as of September 30, 2004 include the following:

| | Balance October 1, 2003 | Additions | Disposals and Adjustments | Balance September 30, 2004 |
|-------------------------------|-------------------------------|--------------|------------------------------|----------------------------------|
| Land | \$ 300,000 | \$ - | \$ - | \$ 300,000 |
| Buildings and improvements | 7,466,979 | 12,444 | (27,720) | 7,507,143 |
| Furniture and fixtures | 564,841 | 41,088 | 27,720 | 578,209 |
| Total | 8,331,820 | 53,532 | - | 8,385,352 |
| Less accumulated depreciation | 4,144,617 | 234,128 | - | 4,378,745 |
| Net carrying amount | \$ 4,187,203 | \$ (180,596) | \$ - | \$ 4,006,607 |

Depreciation expense was \$234,128 for the year ended September 30, 2004.

Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2004

Note 5 - Accounting and Reporting Change

GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Housing Commission has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statement include a management's discussion and analysis (MD&A) section providing an analysis of the Housing Commission's overall financial position and results of operations and the classification of restricted assets.